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SUBJECT: KAZAKHSTAN: UK ENERGY ENVOY TOURS REGION

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On April 29, the Ambassador met with UK Caspian Energy Envoy Angus Miller (protect throughout) to discuss his six-week tour through the Caucasus and Central Asia. Miller said that an investor from the United Arab Emirates plans to develop and modernize the port terminal of Poti on the Georgian Black Sea coast and added that the sunken dredging ship blocking entry to the port of Kulevy is now being disassembled. He downplayed the announcement that German energy company RWE signed a Memorandum of Understanding with the government of Turkmenistan and said the government missed an opportunity during its energy security conference on April 23-24 to award a license to a major international oil company. Miller also told the Ambassador that he is concerned that Bautino bay on the Kazakhstani shores of the Caspian Sea is being overdeveloped and said the area lacks necessary power and other supporting infrastructure. Miller is interested in coordinating U.S. and UK energy policies and looks forward to an opportunity to meet Ambassador Morningstar at his earliest convenience. END SUMMARY.

BIG PLANS FOR POTI

13. (SBU) UK Caspian Energy Envoy Angus Miller paid the Ambassador a courtesy call at the end of a six-week tour through the Caucasus and Central Asia. Recalling his visit to Georgia in March, he called the port city of Poti "a disaster," but reported that an investor from the United Arab Emirates recently announced plans to invest up to \$10 billion to develop 400 hectares of land behind the port, as well as land outside Tbilisi. According to Miller, the investor also recently purchased the Sheraton hotel in Tbilisi.

DISGRUNTLED DEPUTY AT BATUMI

14. (SBU) Miller also toured the oil terminal at Batumi, owned and operated by Kazakhstani national oil company KazMunaiGas, and was struck by comments made by the deputy manager, who is Georgian, about the general manager, who is Kazakhstani. Miller said the deputy manager was openly critical and contemptuous about the

company's Kazakhstani leadership. According to Miller, the deputy manager said the Kazakhstanis "have not kept their promises" to upgrade the oil terminal's facilities since acquiring the asset in February 2008 from Greenoak Holdings. Miller added that, based on what he could see, there was no indication that KMG was likely to modernize the terminal anytime soon.

#### AZERBAIJANI INTERESTS IN GEORGIA

15. (SBU) Miller was skeptical about the future of the oil terminal at Kulevy, Georgia, which is owned by the State Oil Company of the Azerbaijan Republic (SOCAR). He said the dredger that was submerged in front of the port is now being disassembled, but noted that even once that obstacle is removed, ships loading crude oil will still face delays due to bad weather and silting at the berths. Finally, he commented that it appeared to him that the Azerbaijanis were "determined to buy the Georgian railway," and said they had plans to invest \$5.4 billion to renovate the rail system in Georgia.

#### NO BREAKTHROUGHS IN ASHGABAT

16. (SBU) Calling the government of Turkmenistan's Memorandum of Understanding with German firm RWE "just a piece of paper," Miller was dismissive of the company's plans to develop block 23, an offshore reservoir in the Caspian Sea: "The block is a little triangle, close to the Iranian border, which will complicate development to say the least." While acknowledging the symbolic importance of negotiations between the government of Turkmenistan and a Western energy company, Miller nevertheless said RWE is "not taken seriously by the Turkmen, because they are not a Western major."

17. (SBU) He said Turkmenistan "missed an opportunity" to take a dramatic step forward by signing an agreement or awarding a license

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to a major Western oil company during the energy security conference in Ashgabat on April 23-24. Miller lamented that the conference did not alter the perception that the government of Turkmenistan is opposed to Western development of onshore assets and will not actively facilitate trans-Caspian transportation. According to Miller, Turkmen President Berdymukhamedov told EU Special Representative for Central Asia Pierre Morel, "We have the gas available, all you have to do is come and get it."

#### RUSSIANS LEAVE EARLY AND UNHAPPY

18. (SBU) Miller told the Ambassador that Russia's Deputy Prime Minister Igor Sechin "left Ashgabat early and unhappy," following his bilateral meeting with President Berdymukhamedov on April 21. Miller speculated that Berdymukhamedov blamed Gazprom for the recent gas pipeline explosion, although he himself considered the incident a result of both "Russian bullying and Turkmen ineptitude." According to Miller, the Bulgarian delegation to the Ashgabat conference circulated the Russian version of a proposed joint declaration and asked other countries to support it. However, the final conference declaration contained very little of the Russian text, said Miller.

#### BAUTINO BAY BECOMING CROWDED

19. (SBU) According to Miller, who toured the steel fabrication yard at Bautino on April 9-10, the bay is being unwisely overdeveloped. Miller said those developing the area are "trying to cram too much in there, too soon" and worried that the bay will silt because of the number of jetties being added. He also noted that the immediate area lacks supporting infrastructure such as power and water, as well as skilled labor.

#### EUROPEAN ENERGY SECURITY COORDINATION

110. (SBU) Miller told the Ambassador that the United Kingdom is "pushing Europe" to adopt a coordinated energy policy in Central Asia that embraces the diversification of export routes for oil and gas, and will continue to do so. "Europe is fixated on gas," he

said, "but liquids are essential. We must not forget that oil exports from the Caspian region are crucial to our energy security."

Miller said it is important for Europe to speak with one voice on energy policy, but this is complicated by the divide between the countries of "New Europe," which advocate openly and forcefully for alternatives to reduce their dependence on energy supplies from Russia, and the countries of "Old Europe," which want to lock in and secure those same supplies from Russia. Miller said that if EC Energy Commissioner Andris Piebalgs departs when his term expires in October, it could throw EU energy policy into disarray.

#### UK EURASIAN ENERGY POLICY

¶11. (SBU) During the Atyrau Oil and Gas Conference on April 8, Miller outlined the UK government's support for Kazakhstan's multi-vector energy export policy that would ship crude in four directions: (1) domestically; (2) through Russia; (3) to China; and (4) across the Caspian to world markets. Miller called the Baku-Tbilisi-Ceyhan (BTC) pipeline "the catalyst for change and a triumph for oil exports." In his prepared remarks, Miller praised the BTC partners for overcoming "keen opposition from at least one very powerful opponent," but he left this phrase out when he delivered his speech at the conference.

¶12. (SBU) Miller did, however, say that the existing route through Russia "is vulnerable to political and economic constraints imposed by the host government. Shipping of hydrocarbons via Russian facilities also raises serious questions about retained value, the lack of quality banks and access to Black Sea ports." He advocated effectively for the development of the trans-Caspian option best known as the Kazakhstan Caspian Transportation System. "Yes, it is vulnerable," he acknowledged, "as Russia's adventures in Georgia last August demonstrated, but it still offers an established and proven route with direct international market access." According to

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Miller, the UK's preferred route, the Southern Corridor, would bring efficiency and clarity to markets, including producers at the eastern end of the Southern Corridor and consumers at its western end.

#### THE IRANIAN OPTION

¶13. (SBU) Miller attempted to anticipate and address questions about Iran. He conceded, for example, that it might be "quicker and cheaper" to export oil from Kazakhstan to world markets via Iran's Gulf ports, but he was quick to add that this depended entirely on Iran's nuclear ambitions and its relationship with its neighbors and the world community. Miller said that the future of U.S.-Iranian relations was unpredictable, but he noted that a rapprochement would have significant implications for oil export opportunities for western and especially U.S. investors in Kazakhstan.

MILAS